



Financial Affairs Committee
April 19, 2002

1. Participants

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|---------------------------|------------------------------------|
| --Ron Jacobsma, FWUA | --George Senn, CVPWA |
| --Russell Harrington, WWD | --Henry McLaughlin, City of Fresno |
| --Lynn Hurley, SCVWD | --Chase Hurley, Panoche WD |
| --Dennis Michum, GCID | --Mike Hagman, TCCA |
| --Jerry Toenyss, NCPA | --Larry Bauman, BOR |
| --Jesus Reynoso, BOR | |

2. Opening Business

The April meeting was held in the ACWA Office Board Room, 910 K Street, Sacramento. The meeting began at 9:30 a.m. and concluded at noon. The agenda was reviewed and approved.

The Financial Affairs Committee and Reclamation will present key financial issues currently being addressed at a CVPWA special meeting to be held **May 7 at 1:00 p.m. in Monterey, CA at the DoubleTree Hotel in the Bonzai Room (in conjunction with the ACWA Spring Conference)**. **The regular May FAC meeting will be held on Friday, May 24 at the ACWA Office upstairs conference room, 910 K Street, Sacramento.**

3. FAC Issues Matrix Status.

A. Capital Rate-setting and Cost-Recovery. Jesus Reynoso reported that he is working on hydrology and water supply data. Once completed, the sub-team will utilize the data for running and evaluating selected repayment scenarios. As such, the delivery information will be run through the cost allocation and repayment processes through 2030. The sub-team will analyze the results and determine whether or not these revised deliveries can be utilized for both prorating capital costs and calculating the capital rate on an individual contractor basis.

B. PUE Issues--Post 2004 O&M Sub-allocation. The team met on April 11 at the San Luis Delta-Mendota Water Authority offices in Tracy. Ron reported that the team is making good progress. Western provided a briefing on how Western allocates its O&M costs and fielded questions from the sub-team relative to the various types of expenses included in Western's financial statements. Western agreed to attend the next sub-team meeting (in Roseville) to provide further clarification to some lingering questions posed by the sub-team regarding costs. The team continued its brainstorming exercise to develop potential formulas

for sub-allocating O&M costs post 2004. The team has reviewed how costs are sub-allocated under the current load balancing contract and is developing alternative formulas for sub-allocating Reclamation and Western O&M expenses, Control Area Operator charges, energy deviation charges, power purchase costs, power delivery expenses (wheeling), San Luis transmission costs, Reclamation administrative expenses for power purchases, and DWR O&M costs for San Luis and Dos Amigos when the contract expires in December 2004. The next meeting is scheduled for May 14 in the City of Roseville offices.

C. Cost Recovery for CVPIA Programs and Activities. . Larry Bauman reported that three of Reclamation's team members (Larry, Mike and Jesus) met with Reclamation CVPIA staff as well as a Fish and Wildlife staff member to discuss our needs in continuing our teams' review efforts on CVPIA activities. In addition, they've been successful in securing Chris Waynar of the Fish and Wildlife Service to join our CVPIA team. The next meeting is scheduled for May 1 at the BOR offices on Cottage Way, in Room E1819. The meeting will start at 9:00 a.m. and run through 3:30 p.m.

D. Reclamation Water Accounting Program Development. Larry reported that Reclamation took over the new BOR WORKS program on February 1, 2002. Since then they have been reviewing, testing and, as necessary, adjusting the system. Over the next month or so, Larry's 705 staff will be updating the delivery and revenue data into the system so that they can run calendar year end (through 12/31/01) and water year end (through 2/28/02) results. Upon successful completion Reclamation plans to run the new BOR-WORKS water accounting program parallel with the existing WORKS program and will continue to do so for another three months or so. Larry said that the Fresno Area Office staff would receive BOR WORKS training starting in June and the Willows and Folsom Area Office staff would receive their training in July. Larry expects the training for the Web-enabled version of BOR WORKS to begin around mid-October. Ron suggested that the BOR piggyback the FAC and Water Authority representative training with the Area Office training so that any problems from the water user community perspective can be spotted prior to the training provided to the CVP water contractors.

4. **CFO Audit Impacts.** Larry stated that resolving the CFO Audit issue is the Ratesetting Services' highest priority item. The next meeting is scheduled for May 2 at the BOR offices on Cottage Way, in Room E-2805. The water contractor representatives will be reviewing the expenditures that were found by the audit to have been inappropriately capitalized when they should have been expensed. We will be focusing on the criteria used to determine whether a cost should be capitalized or expensed and the criteria used to determine that the expenditure should be reimbursable.
5. **Contractor Review of 2001 Final Accountings.** Ron commented that the 2001 final accountings had been mailed out to the three Authorities (Larry pointed out that this was the first time that they had been sent out to the TCCA) and the CVPWA for review and comment. Ron commented that the Authorities and the CVPWA represent a large segment of the CVP water contractors, but do not represent all contractors, for example the Sacramento River Contractors. George commented that the B-Schedules provided for our review referenced Schedules contained in the financial statements (that have not yet been

issued) that contained support for the expenditures and revenues that we were asked to review. It was suggested that these schedules or the financial statements themselves be made available at the same time the B-Schedules are mailed out so that our review can be more complete and comprehensive.

6. **Spring Budget Workshop.**

A. **Spring Budget Workshop.** Larry pointed out that Reclamation was interested in having the Spring Budget Workshop but that the date was unknown due to the transfer of the key staff member to WAPA. George agreed to contact Roger Pollock to get an update.

7. **Water Transfer Issues.**

A. **Reclamation Water Transfer Policy.** Ron commented that the Bureau had sent out a copy of its Interim Policy of Water Rates for Water Transfers to all CVP water contractors on March 28. He said that he and others had some problems with the interim policy in that it does not adequately cover what constitutes incremental costs and seems to be contrary to the water service contracts recently signed by the Friant contractors. Larry said that Reclamation recognizes that there are some issues with the interim policy and he emphasized that this interim policy is for the 2002 water year only and that Mike Finnegan is looking to reconvene the Financial Issues Team for the purpose of addressing these issues and for developing a final water transfer policy.

8. **Firming Power Plant Proposal.** Ron mentioned that on March 22 members of the FAC met with Reclamation, Western, and others to discuss a Reclamation proposal to build a new power-firming project south of the Delta near the O'Neill Pumping Plant. The firming plant proposal was an outgrowth of a study conducted by a consulting firm hired by the Santa Clara Valley WD to study the feasibility of building a small power plant near the Coyote Pumping Plant. The study concluded that a 250 MW natural gas Combined Cycle Plant located near the San Luis Dam and Reservoir would be the most cost effective. The purpose of the meeting was to obtain contributions to fund an EIS that would examine firming alternatives. It is currently estimated that such a study would cost about \$3.5 million.

The water and power contractors expressed concern over the lack of information concerning the benefits associated with such a project. A big question was reimbursability—are the costs associated with such a study reimbursable? If such a study was conducted and the plant was found not to be feasible, who would be stuck with the costs? The bottom line was the water contractors were not interested in any study or project that would increase their water rates without a further understanding of the ultimate costs and benefits of the proposed project. Other concerns that surfaced were whether funding for such a study would reduce funding needed for other pressing things that need to be done to operate and maintain the CVP.

Supposedly, Bay Area Rapid Transit (BART) is interested in the firming plant project and it is funding a lobby effort to get the feasibility study included in next year's budget. Santa Clara Valley Water District has withdrawn its support for the firming plant. The FAC will

recommend to the CVPWA Board of Directors that a letter should be sent to BART noting our concerns.

9. Reports on Ongoing FAC Interest Issues.

A. Direct Funding Agreements. Nothing new to report.

B. Folsom South Canal Capital Cost Deferral/O&M Costs. Nothing new to report.

C. Arroyo Pasajero: Reimbursability of 1995 Flood Litigation Costs. Nothing new to report.

George R. Senn
Finance Director